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Annual Report of the Canada Pension Plan 2008–09

Canada

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Fiscal Year 2008–09

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Human Resources and Skills Development Canada (HRSDC) is responsible for the administration of the Canada Pension Plan (CPP). This report is produced by HRSDC, in collaboration with Finance Canada, the Canada Revenue Agency, the Office of the Superintendent of Financial Institutions and the CPP Investment Board.

For more details on subjects covered in this report, or about the Canada Pension Plan in general, please visit **www.hrsdc.gc.ca**, or call (free of charge from Canada and the U.S.):

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Her Excellency
The Governor General of Canada

May it please Your Excellency:

We have the pleasure of submitting the *Annual Report of the Canada Pension Plan* for the fiscal year 2008–09.

Respectfully,

James M. Flaherty
Minister of Finance

Diane Finley
Minister of
Human Resources and Skills Development

Canada

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2008–09: The Year at a Glance

- Changes to the Canada Pension Plan (CPP) reflect the statutory increase in maximum pensionable earnings from $44,900 for 2008 to $46,300 for 2009. The contribution rate remained unchanged at 9.9 percent.
- 4.4 million Canadians received 5.2 million benefits from the CPP, with a total value of approximately $29 billion.
- About 3.6 million CPP retirement benefits were paid, totalling $21.1 billion.
- Benefits for approximately 1 008 000 surviving spouses or common-law partners and 77 000 children of deceased contributors were paid, totalling $4 billion.
- Benefits for approximately 311 000 people with disabilities and 87 000 of their children were paid, totalling $3.6 billion.
- About 127 000 death benefits were paid, totalling $0.3 billion.
- Personal Statements of Contributions were sent to 581 588 individuals between the ages of 18 and 70. An additional 17 621 Statements of Contributions were sent to individuals over 70 years of age.
- Operating expenses amounted to approximately $694 million, or 2.4 percent of the $29 billion in benefits paid. This compares favourably with operating expenses for other large pension plans and individual registered retirement savings plans (RRSPs).
- As at March 31, 2009, total CPP Investment Board net assets were valued at $105.5 billion. These assets consisted primarily of public and private equities; fixed income; absolute return strategies; and public and private real estate, inflation-linked bonds and infrastructure.
- In early 2009, about 5.9 million clients received the annual T4 and NR4 information inserts. These inserts are the Department's main vehicle for providing CPP and OAS information updates to benefit recipients residing in Canada and abroad. The inserts describe new government initiatives in support of seniors, provide a brief overview of benefit parameters and explain the benefit application process and procedures.

The Canada Pension Plan in Brief

From the age of 18, almost everyone who participates in the paid labour force in Canada contributes to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP), and will at some time benefit from their provisions.

Established by an Act of Parliament in 1965 and implemented in 1966, the CPP is a jointly managed federal-provincial plan. Quebec manages and administers its own plan, the QPP, and participates in decision making for the CPP. (QPP information is available from the Régie des rentes du Québec at **www.rrq.gouv.qc.ca**.) Benefits from either plan are based on pension credits accumulated under both. The plans are financed through mandatory contributions from employees, employers and self-employed people, as well as from investment income.

While it is perhaps best known for its retirement pensions, the CPP also provides disability, death, survivor and children's benefits. The CPP administers the largest long-term disability plan in Canada. Besides paying monthly benefits to eligible contributors with a disability and to their children, the CPP also helps some beneficiaries return to the workforce through vocational rehabilitation services and return-to-work supports.

Benefit calculations are based on how much and for how long a contributor has paid into the CPP and, in some cases, the age of the beneficiary. Benefits are not paid automatically—everyone must apply and provide proof of eligibility. Benefit amounts are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index (CPI).

Many Canadians live and work in other countries. Others move here after contributing to a public pension plan elsewhere. To help protect their pensions, Canada has entered into social security agreements with other nations. These agreements enable Canadians to receive public pensions from other countries and to receive CPP payments abroad. They also permit continuity of social security coverage when Canadians are temporarily working outside the country, help them meet eligibility requirements for CPP and for other countries' public pensions and eliminate duplicate contribution payments. As of March 31, 2009, social security agreements were in force with 49 countries.

Benefits and Expenditures

The number of people receiving Canada Pension Plan (CPP) benefits has increased steadily over the past decade. As a result, expenditures have also increased. Figure 1 (next page) shows the yearly increases in benefits and expenditures since 2005–06; Figure 2 (next page) shows the percentage of expenditures by type of benefit.

Retirement Pensions

Retirement pensions represent 73 percent of the total benefit amount paid out by the CPP in 2008–09. The amount of contributors' pensions depends on how much and how long they have contributed and at what age they begin to draw the benefits. The maximum new monthly retirement pension in 2009 was $908.75; the average payment was $492.81.

The CPP offers flexibility with respect to the age of retirement. Contributors can take their pension as early as age 60 or receive a larger pension if they wait until after they turn 65 to begin receiving it. The longer a contributor waits, the larger the benefit. The CPP permanently reduces the pension by 0.5 percent per month for those who take their pension before reaching age 65, reflecting the fact that these seniors will, on average, receive their benefits longer than someone who retires at the age of 65. For those who take their pension between the ages of 65 and 70, the CPP permanently increases the pension by 0.5 percent per month (up to a maximum of 30 percent), reflecting the fact that these seniors will receive their benefits for a shorter amount of time, on average.

Since Canadians are living longer and healthier lives, more of them have the opportunity to keep working as they get older. These older workers and their employers need greater CPP flexibility in the transition from work to retirement.

Figure 1: **CPP – Benefits and Expenditures by Fiscal Year**

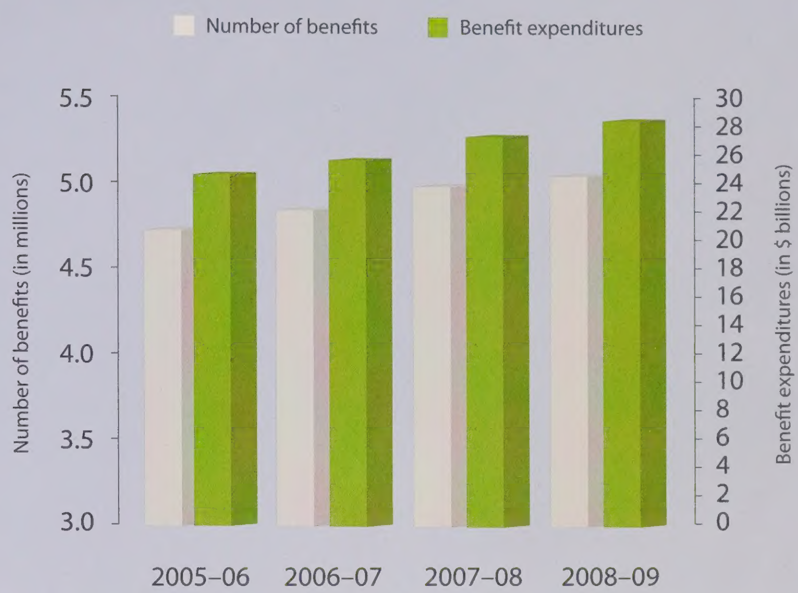
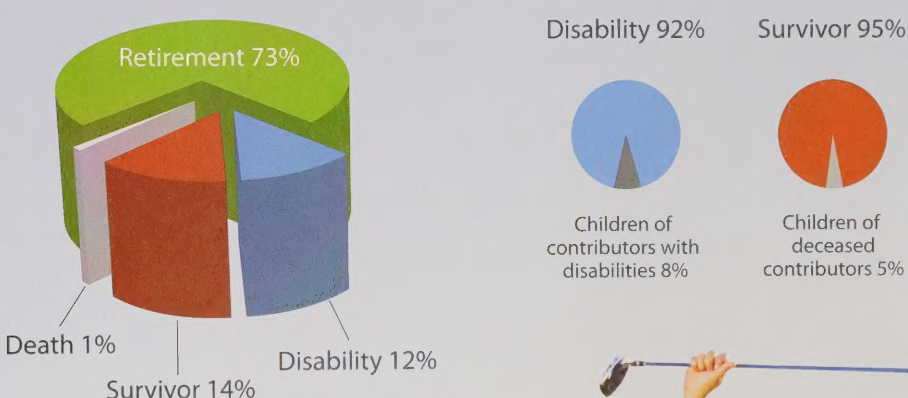


Figure 2: **CPP – Percentage of Benefit Amount Paid for 2008–09**



Disability Benefits

Disability benefits, paid to eligible contributors and their children, represent 12 percent of the total benefit amount paid out by the CPP in 2008–09. The maximum new monthly disability benefit in 2009 was $1,105.99; the average payment was $803.24. The children's monthly benefit was a flat rate of $213.99.

Survivor Benefits

Survivor benefits, paid to the surviving spouse or common-law partner of the contributor and his/her dependent children, represent 14 percent of the total benefit amount paid out by the CPP in 2008–09. The amount of the monthly survivor's pension varies depending on a number of factors, including the age of the surviving spouse or common-law partner at the time of the contributor's death and whether the survivor also receives other CPP benefits.

The maximum new monthly survivor's benefit in 2009 at age 65 was $545.25; the average payment was $319.82. The children's monthly benefit was a flat rate of $213.99.

Death Benefits

Death benefits represent one percent of the total benefit amount paid out by the CPP in 2008–09. The death benefit is a one-time payment. The maximum payable in 2009 was $2,500; the average payment was $2,249.60.

Provisions

General Drop-out Provision

The CPP includes provisions that compensate for periods of low earnings. The general drop-out provision excludes 15 percent of a person's lowest earnings to help offset periods of low or no earnings, such as those incurred during unemployment, illness or schooling.

Child Rearing Provision

The Child Rearing Provision (CRP) excludes from the calculation of benefits the periods during which contributors have remained at home, or have reduced their participation in the workforce, to care for children under the age of seven. All of the months following the birth of the child until the child reaches seven years of age can be excluded from the benefit calculation provided the contributor meets all criteria, including low or no earnings.

Pension Sharing or Credit Splitting

The Plan has another provision under which married or common-law spouses may either share their retirement pensions (where the union is intact) or split their pension credits (where the union has ended).

The Reconsideration and Appeals Process

There are three opportunities to review or appeal a decision on a CPP application. Most requests for review or appeal concern disability benefit applications.

1. The first opportunity involves a request to the Minister of Human Resources and Skills Development for a reconsideration or administrative review of an initial application. In 2008–09, Service Canada issued 12 263 reconsiderations of decisions related to CPP benefits, division of pension credits or pension sharing. There were 4499 decisions issued in favour of clients.
2. A person who is not satisfied with the decision made at the reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an administrative tribunal operating at arm's length from the government, made up of three people chosen by the Commissioner of Review Tribunals from a panel of 100 to 400 part-time members appointed by the Governor in Council. Hearings are held in more than 110 locations across Canada. Travel and accommodations are provided for parties who are requested to attend a hearing. Claimants may appear on their own behalf or with representation; a Service Canada representative acts on behalf of the Minister. The hearings and the decisions are not open to the public.

   In 2008–09, the Office of the Commissioner of Review Tribunals (OCRT) received 3951 appeals under the CPP and held 3619 hearings. The OCRT issued 3763 decisions, of which 1597 were in favour of the appellants. In addition, 362 cases were concluded as a result of settlements.
3. The next opportunity to appeal under the CPP is at the Pension Appeals Board (PAB)—an administrative tribunal operating at arm's length from the government. Board members are judges or former judges of the superior courts of a province or the federal courts. At this level of appeal, the claimant or the Minister must first request "leave to appeal," which is permission for a hearing. Similar to Review Tribunal hearings, Pension Appeals Board hearings are held in major centres across Canada. Travel and accommodations are provided for parties who are requested to attend a hearing. Claimants may appear on their own behalf or with representation; the Minister is represented by a lawyer. The hearings and the decisions are open to the public.

In 2008–09, the PAB received 633 requests for "leave to appeal." Seventy-six percent of applications reviewed were granted "leave to proceed to a hearing." In 2008–09, the PAB issued 661 decisions, of which 337 (51 percent) were decided in favour of the claimants.

Decisions of the Pension Appeals Board may be brought to the Federal Court or Federal Court of Appeal for Judicial Review. The Federal Court either upholds a decision or returns it to the Pension Appeals Board for a new hearing.

Ensuring Financial Sustainability

As joint stewards of the Canada Pension Plan (CPP), federal and provincial Finance ministers review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. They base their recommendations on a number of factors, including the results of an examination of the Plan by the Chief Actuary. The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years (in the first year of the legislated ministerial triennial review of the Plan). The CPP legislation also requires that the Chief Actuary prepare an actuarial report any time a Bill is introduced in Parliament that has, in the view of the Chief Actuary, a material impact on the estimates in the most recent triennial actuarial report. This reporting ensures that the long-term financial implications of proposed Plan changes are given timely consideration.

Changes to the CPP legislation governing the general level of benefits, the rate of contributions or the investment policy framework can be made only through an Act of Parliament. Any such changes also require the agreement of at least two-thirds of the participating provinces, representing at least two-thirds of the population. The changes come into force only after two years' notice, unless all of the provinces waive this requirement, and after provincial orders in council confirming the changes have been passed. Quebec participates in decision making regarding changes to the CPP legislation, even though it administers its own equivalent plan. It is important that Quebec be involved in changes to the CPP to ensure the portability of QPP and CPP benefits across Canada.

Triennial Review Results Announced in May 2009

The results of the most recent triennial review were announced jointly by federal, provincial and territorial Finance ministers on May 25, 2009. This review confirmed that the CPP remains on sound financial footing and is well positioned to weather the recent market downturn. Canadians can count on the CPP to be there for them when they retire. Ministers also proposed a number of changes to the Plan, to be phased in between 2011 and 2016, which are intended to increase fairness, flexibility and participation for older workers who will soon be retiring. Proposed changes include the following key elements:

- eliminating the work cessation test in 2012 so that a person can take their retirement pension as early as age 60 without stopping work or earning less;
- increasing the general drop-out from 15 percent to 16 percent in 2012, to allow a maximum of almost seven and a half years of low or no earnings to be dropped from the contributory period, and to 17 percent in 2014, to allow a maximum of eight years to be dropped;
- requiring a person under the age of 65, who receives a retirement pension and continues working or returns to work, to contribute to the CPP and thereby accumulate additional retirement benefits;
- permitting a person aged 65 to 70, who receives a retirement pension and continues to work or returns to work, to elect not to contribute to the CPP;
- gradually adjusting the pensions for early (age 60 to 64) and late (age 65 to 70) take-up of the CPP to ensure fair actuarial values; and
- requiring that the pension adjustments be reviewed periodically.

More information on the review's conclusions can be found at **http://www.fin.gc.ca/n08/09-051-eng.asp**.

Actuarial Reporting

The *Twenty-third Actuarial Report* was tabled in Parliament by the Minister of Finance on October 29, 2007. The report presents the financial status of the Plan as at December 31, 2006, and provides information to evaluate the Plan's financial sustainability over a long period, assuming Plan provisions remain unchanged. The next statutory triennial actuarial report will present the status as at December 31, 2009; it should be completed before the end of 2010. The Report will take the recent financial downturn into account, as well as any other economic developments. The Report will also take into account the proposed changes recently announced by federal and provincial Finance ministers.

Funding Approach

When it was introduced in 1966, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits for one generation would be paid largely from the contributions of later generations. This approach made sense under the economic, financial and demographic circumstances of the time. The period was characterized by rapid growth in wages and labour force participation, and low rates of return on investments.

However, demographic and economic developments as well as changes to benefits in the following three decades resulted in significantly higher costs. When federal and provincial Finance ministers began their five-year statutory review of the CPP finances in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again—to 14.2 percent by 2030—to continue to finance the Plan on a pay-as-you-go basis. Continuing to finance the Plan on a pay-as-you-go basis would have meant imposing a heavy financial burden on Canadians in the workforce 25 years down the road. This was deemed unacceptable by the federal and provincial governments.

Therefore, amendments were put into effect in 1998 to gradually raise the level of CPP funding by: increasing contribution rates over the short term; reducing the growth of benefits over the long term; and investing cash flows in the private markets through the CPP Investment Board (CPPIB), to achieve higher rates of return. A further amendment was included to ensure that federal and provincial Finance ministers consider the full funding of any new or increased benefits provided under the Plan. The reform package agreed to by the federal and provincial governments in 1997 included significant changes to the Plan's financing and funding provisions. The package included:

- the introduction of steady-state funding to replace pay-as-you-go financing, in order to build a reserve of assets, equivalent over time to about five and a half years of benefit expenditures, or about 25 percent of the Plan's liabilities. Investment earnings from this pool of assets would help to pay benefits when the large cohort of baby boomers retires.
- the introduction of incremental full funding, where changes to the CPP that increase or add new benefits would be fully funded. In other words, their costs would be paid as the benefit was earned and any costs associated with benefits that were paid but not earned would be amortized and paid for over a defined period of time, consistent with common actuarial practice.

Both of these funding objectives were introduced to improve fairness and equity across generations. The move to steady-state funding eases some of the contribution burden on future generations. Under full funding, each generation that receives benefit enrichments is more likely to pay for it in full and not pass on the cost to future generations. These full funding requirements were made operational through new regulations that came into effect with the adoption of Bill C-36 on March 3, 2008.

Financing

According to the Chief Actuary's *Twenty-third Actuarial Report*, the level of contributions is expected to exceed the level of benefits paid until 2019. Funds not immediately required to pay benefits will be transferred to the CPPIB for investment. Plan assets are expected to accumulate rapidly over this period and, over time, will help pay for benefits as more and more baby boomers begin to collect their retirement pensions. In 2020 and thereafter, when most baby boomers will have retired, and benefits paid begin to exceed contributions, investment revenues from the accumulated assets will provide the funds necessary to make up the difference. However, contributions will remain the main source of funding for benefits.

The amended financing policy moved the CPP away from pay-as-you-go financing (with a small reserve) towards fuller funding. According to the *Twenty-third Actuarial Report*, the Plan was 15 percent funded (with an unfunded liability of $620 billion as at December 31, 2006) and projected to be 25 percent funded by 2025 (i.e., Plan assets are expected to cover about 25 percent of obligations), compared to about 7 percent funded at the time of the 1997 agreement.

Moving to full funding instead of steady-state funding would have eventually eliminated the unfunded liability, but would have created intergenerational unfairness. During the transition, contributors of some generations would have had to pay much higher contributions than others; they would have had to pay for the benefits of current retirees and for the development of a reserve to cover their own pensions. Continuing with a pay-as-you-go approach also would have been unfair, as it would have meant a sharp increase in the contribution rate over the coming decades. The fuller funding approach is more equitable for each generation.

A meaningful measure of the future financial health of the CPP is the adequacy and sustainability of the 9.9 percent contribution rate rather than the funding level at any particular point in time. According to the *Twenty-third Actuarial Report*, as at December 31, 2006, despite the projected substantial increase in benefits to be paid as a result of an aging population, the Plan is expected to be able to meet its obligation throughout the projection period. A partially funded CPP not only balances the two approaches to funding, it also contributes to diversifying the funding of Canada's retirement income system, which also includes:

- the Old Age Security (OAS) program, funded by federal government general revenues; and
- private savings, including tax-deferred, fully funded, employer-sponsored pension plans and registered retirement savings plans (RRSPs).

A diversified funding approach allows Canada's retirement income system to be less vulnerable to changes in economic and demographic conditions than systems in countries that use a single funding approach. In addition, the Canadian approach to pension provision, based on a mix of public and private pensions, is an effective way to provide for retirement income needs.

Financial Accountability

Since 1999–2000, the Canada Pension Plan (CPP) has used the accrual basis of accounting for revenues and expenditures. This method gives administrators a detailed financial picture and allows accurate matching of revenue and expenditures in the year in which they occur.

As at March 31, 2009, total CPP Investment Board (CPPIB) net assets were valued at $105.5 billion. These net assets are composed of contributions and investment income that have accumulated since the Plan's inception in 1966, less benefit and administrative expenditures over the same period.

CPP Account

A separate account, the CPP Account, has been established in the accounts of the Government of Canada to record the financial elements of the Plan (i.e. contributions, interest, earned pensions and other benefits paid, as well as administrative expenditures). The CPP Account also records the amounts transferred to, or received from, the CPPIB. Spending authority is limited to the Plan's net assets. The CPP assets are not part of the federal government's revenues and expenditures.

In keeping with Bill C-3 (*An Act to Amend the Canada Pension Plan and the Canada Pension Plan Investment Board Act*), which came into force on April 1, 2004, the CPPIB is responsible for investing the remaining funds after the CPP operational needs have been met; the CPP Account's operating balance is managed by the Government of Canada.

CPP Investment Board

The CPP Investment Board (CPPIB) was created by an Act of Parliament in December 1997 to invest funds not required by the CPP to pay current benefits. It is governed and managed independently of the CPP. It is a Crown corporation specifically designed by the federal and provincial Finance ministers to operate at arm's length from governments, within the private sector world of financial markets, while still maintaining significant public accountability. It is a professional investment management organization, headquartered in Toronto, with offices in London and Hong Kong. Its legislated mandate is to manage funds transferred from the CPP in the best interests of the contributors and beneficiaries of the Plan. The CPPIB invests CPP assets to achieve a maximum rate of return, without undue risk of loss. The CPPIB must also consider the factors that affect the Plan's funding and its ability to meet its financial obligations.

The CPPIB has a long-term investment horizon. In the Chief Actuary's most recent report, it is estimated that contribution revenues will exceed CPP benefit payments and operating expenses well into the future, and that the CPP will not need money from investment income until after 2019.

Further information on the CPPIB mandate, governance structure and investment policy can be found at **www.cppib.ca**.

CPP Assets and Cash Management

The 2004 Act (Bill C-3) also stipulates that the CPP must transfer any excess cash to the CPPIB, once the benefit and administration expenses have been paid, in order to gain a better return. The CPP produces cash flow forecasts to determine the funds to be transferred to or from the CPPIB and these are updated regularly.

The CPP continues to work closely with the CPPIB, various government departments and banks to coordinate these transfers and to manage a tightly controlled process. A control framework is in place to ensure that the transfer process is followed correctly and that all controls are effective. For instance, the CPP obtains confirmations from all critical points during the transfers and can therefore monitor the cash flow from one point to the next.

CPP Investment Board Assets

As at March 31, 2009, the CPPIB net assets totalled $105.5 billion. These assets consisted primarily of $46.5 billion of public equities; $14.1 billion of private equities; $29.4 billion of bonds, other debt, money market securities and absolute return strategies; and $15.6 billion of public and private real estate, inflation-linked bonds and infrastructure. Investment returns were negative 18.6 percent for the fiscal year ending March 31, 2009. On a relative basis, the Fund matched the return of the CPP Reference Portfolio benchmark in fiscal year 2009 by rising one basis point above the benchmark. In the three years since the CPP Reference Portfolio was established, the CPPIB has risen 487 basis points or approximately $5.3 billion above this market-based benchmark. The ten-year annualized rate of return was 4.3 percent, which represents $24.2 billion of investment income.

Investing for Our Future

In order to fulfill its multi-generational mandate of helping to meet the long-term funding requirements of the Plan, the CPPIB focuses on its long-term investment horizon.

The CPPIB investment strategy centres on diversifying the portfolio as broadly as possible—by asset class, by geographic areas and by active and passive investment programs. Investments are made in five major risk-return categories: public equities, private equities, fixed income, real estate and infrastructure.

Like other major pension funds, the CPPIB looks for opportunities to increase investments that track and surpass the general rate of inflation. These include inflation-sensitive assets such as: real estate, which contains mostly retail and commercial properties; infrastructure, with deals originating mainly in North America and Western Europe; and inflation-linked bonds.

The CPPIB draws on internal expertise and partnerships with external investment managers to build its global portfolio. In order to manage the increased complexity and geographic reach of its investment programs, the CPPIB has significantly expanded its team of specialized investment professionals over the past three years.

CPP Investment Board Reporting

The CPPIB reports on a quarterly basis. Legislation requires that it hold public meetings at least every two years in each of the nine provinces participating in the CPP. The purpose of these meetings is for the CPPIB to present its most recent annual report and to provide the public with the opportunity to ask questions about the policies, operations and future plans of the CPPIB. The last meetings were held in all of the nine participating provinces in June 2008.

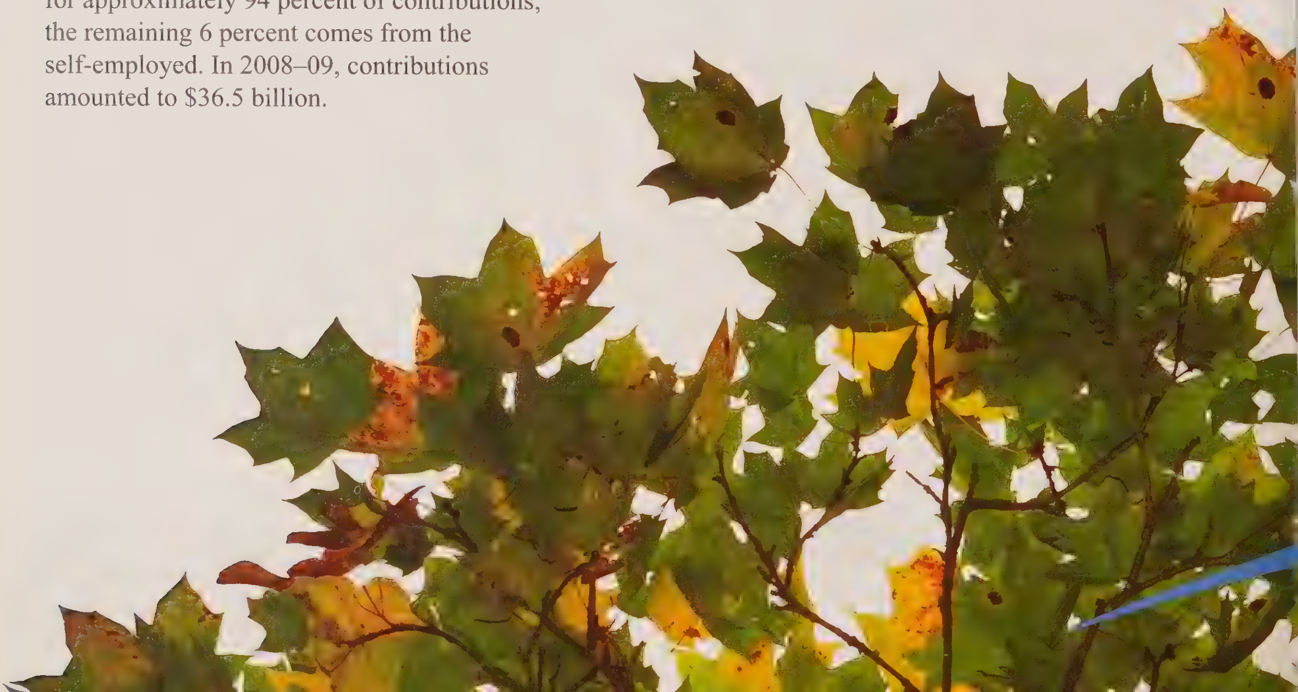
Managing the CPP

Collecting and Recording Contributions

Contributions to the Canada Pension Plan (CPP) are paid on earnings between a minimum and a maximum amount. The minimum (which remains constant) is $3,500 and the maximum is adjusted annually to reflect the growth in the average Canadian industrial wage. The maximum amount of pensionable earnings as of January 1, 2009, was $46,300 (up from $44,900 in 2008). Contributions stop once a contributor reaches the age of 70 or begins to receive a CPP retirement pension or disability benefit.

The contribution rate in 2008–09 was 9.9 percent, equally split between employees and employers. People who are self-employed pay the full 9.9 percent. Employers and employees account for approximately 94 percent of contributions; the remaining 6 percent comes from the self-employed. In 2008–09, contributions amounted to $36.5 billion.

All CPP contributions are remitted to the Canada Revenue Agency (CRA). CRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4 slips. To verify that contribution requirements are being met, CRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit. There are approximately 1.6 million existing employer accounts. In 2008–09, CRA conducted 48 062 examinations to promote compliance with the requirements to withhold, report and remit employer source deductions.



Overpayment of Benefits

Consistent with its mandate to manage the CPP effectively, Human Resources and Skills Development Canada (HRSDC) has procedures in place to detect benefit overpayments. During 2008–09, overpayments totalling $31 million were detected. Of this amount, $24 million was recovered, debts of $3 million were forgiven and the $4 million remaining represents a net increase in the accounts receivable for the year.

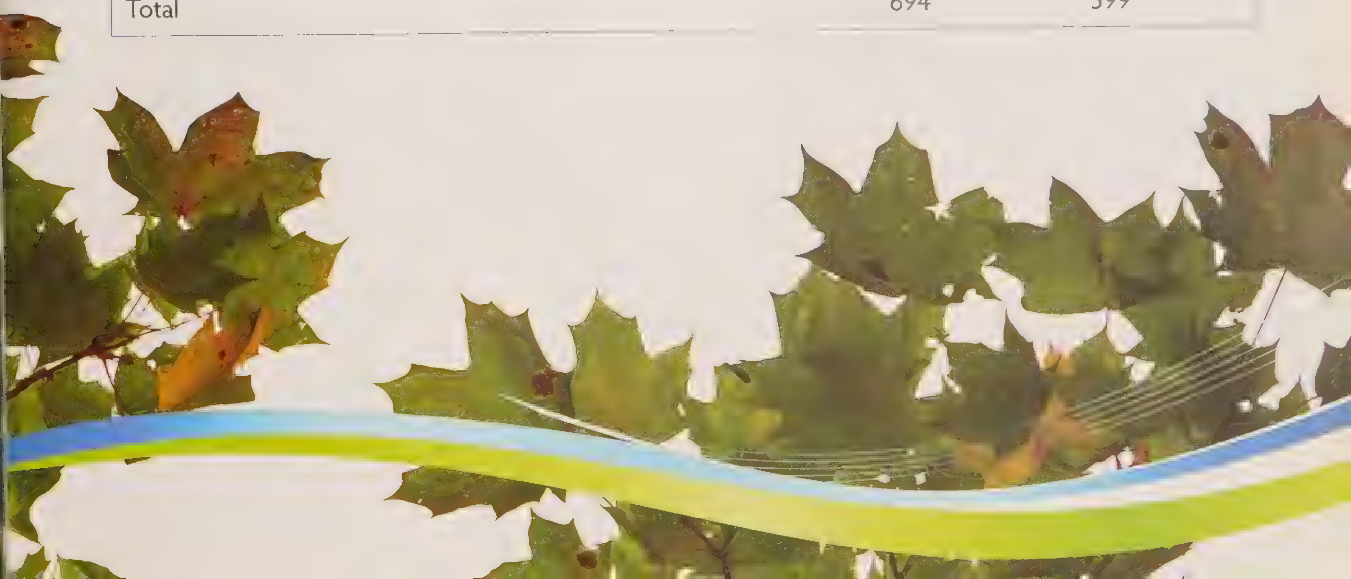
Operating Expenses

In 2008–09, the cost to administer the CPP was approximately $694 million, with HRSDC accounting for the largest portion at $345 million. CRA and the Royal Canadian Mounted Police (RCMP) required approximately $146 million for services to the CPP; Public Works and Government Services Canada (PWGSC) required some $12 million. The Office of the Superintendent of Financial Institutions (OSFI), where the Office of the Chief Actuary is housed, and Finance Canada accounted for about $2 million. The CPP Investment Board reported $189 million in operating expenses.

CPP operating expenses of $694 million in 2008–09 represent 2.4 percent of the $29 billion in benefits paid. This ratio compares very favourably with that of other pension plans. CPP operating expenses also compare favourably with those of RRSPs. Table 1 presents the CPP's operating expenditures for the last two years.

Table 1: **CPP Operating Expenses for 2008–09 and 2007–08**

	Expenditures (in $ millions)	
Department / Agencies / Crown Corporations	2008–09	2007–08
HRSDC	345	291
CPPIB	189	154
CRA/RCMP	146	140
PWGSC	12	12
OSFI/Finance Canada	2	2
Total	694	599



Improved Service Delivery

Service Canada is the Government of Canada's one-stop service delivery network. In partnership with other departments, it provides Canadians with easy access to a growing range of government programs and services.

In 2008–09, Service Canada continued its efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. Information on the CPP is available in print, on the Internet, in person at local offices, by phone and at electronic kiosks in government offices and public buildings. Personalized contact with clients continues to receive high priority.

During this fiscal year, Service Canada issued personal CPP Statements of Contributions (SOC) to 581 588 individuals between the ages of 18 and 70. The SOCs were accompanied by information on the retirement income system in Canada and on how to apply for benefits online. An additional 17 621 personal SOCs were issued to individuals over age 70. The SOCs included a letter inviting clients to apply for their Canada Pension Plan (CPP) retirement pension, a CPP retirement pension application form with an accompanying information sheet, as well as a self-addressed return envelope.

Online Service Delivery

Service Canada is implementing and continually improving its self-service Web-based options. Clients are able to make a wider range of inquiries and execute more transactions online, as well as access more integrated information on related benefits from one secure site. Additional promotion of the Web-based CPP retirement application has led to increased usage.

CPP contributors can also view and print a copy of their Statement of Contributions (SOC). The printed copy of the online version of a client's SOC is now considered a legal document unless otherwise contested in court. If this printed version of their CPP SOC is being contested for legal purposes, contributors can also use this online service to request that an official one be mailed to them.

CPP and OAS benefit recipients can view and print a copy of their earlier tax slips, even as far back as 2003 or six years plus the current year. Clients can also choose to stop receiving their tax information slips by mail or choose to restart the mailing if they had asked for it to cease. If they live in Canada, they can also change their mailing address or their direct deposit information online.

Processing Benefits

In 2008–09, HRSDC processed 260 996 retirement applications, 91 percent of which were paid within the first month of entitlement (as shown in Table 2 on the next page). During the same period, 66 493 CPP disability initial applications were processed. Decisions on 84 percent of all disability initial applications, which are complex and require medical information, were made within 120 calendar days of receipt of the completed application. Improved communication with clients and their physicians helped staff make well-informed decisions and helped CPP disability applicants better understand the reasons for those decisions.

Table 2: **Application Processing Statistics**

National measures	National objective	2008–09 national results
CPP retirement applications: Percentage of benefits paid within the first month of entitlement	85%	91%
CPP disability (initial decisions): Percentage of initial decisions made within 120 calendar days of receipt of applications	75%	84%
CPP disability (reconsideration decisions): Percentage of reconsideration decisions made within 120 calendar days of receipt of applications	70%	77%

Looking to the Future

Modernizing Service Delivery

In 2008–09, Service Canada continued to modernize CPP program delivery through improvements to the information technology used to deliver benefits and services. Providing staff with a comprehensive view of CPP and OAS client and benefit information, benefit payment history, lifetime CPP contributions and the ability to complete some maintenance transactions in real time allows for better client service at the first point of contact. The automated adjudication of CPP retirement benefit applications (determination of eligibility and calculations of entitlement) ensures accuracy and the payment of benefits on time. In early 2009, the adjudication of all remaining CPP benefit applications was automated to bring the same service quality advantages to all CPP beneficiaries, regardless of benefit type.

Information Technology Renewal Delivery System (ITRDS)

As the Canadian population ages and more Canadians become eligible for Canada Pension Plan (CPP) benefits and require more services, Service Canada continues to replace aging information technology systems with a modernized one. Through an incremental approach to modernization, staff have maintained client service, avoided the risks that come with a large-scale change and successfully introduced significant new capabilities. The automation of application adjudication has improved program integrity, enhanced Internet services and provided greater choice to clients. Through the use of technology and by streamlining processes, Service Canada will reduce the complexity of the application process, simplify the management of CPP contributions and focus even more on meeting the needs of clients.

Ensuring Program Integrity

Integrity is fundamental to the delivery of citizen-centred service; it is key to improving confidence and public trust in government because it ensures that the right person receives the right benefit, at the right time, for the intended purpose.

The integrity of the CPP program is maintained in part by established operational procedures and controls designed to ensure the accuracy of the benefits and services delivered.

Service Canada developed the Enterprise-Wide Quality Management Framework in response to recommendations provided by the Office of the Auditor General in its 2006 report. This framework organizes quality management activities and looks at service delivery from various perspectives.

In keeping with the Framework, the CPP National Payment Accuracy Review was established in April 2008 as an ongoing exercise. It enables Service Canada to establish connections to the cause(s) and source(s) of monetary errors, and to subsequently associate a dollar value to them. The results provide statistical information which is used to improve the delivery of the CPP program and to sustain the integrity of the CPP Fund.

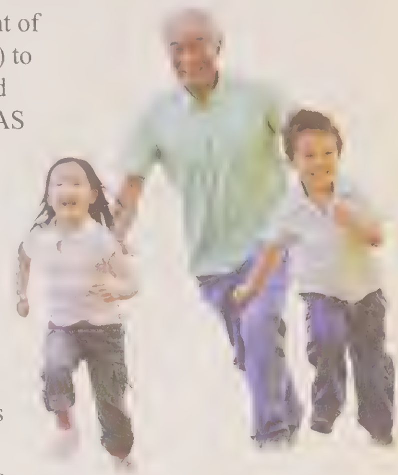
Also as part of the Framework, Service Canada is developing an enterprise-wide quality management program that will look at service delivery from various perspectives and use an effective results-based management approach. The integrity function of the program will include improvements to the CPP Payment Accuracy Reviews; other techniques and methods will be included to continuously track, identify and assess risk in the process controls that lead to errors, abuse or fraud. This function will contribute to the integrity and efficiency of CPP benefit processing by:

- improving the identification and assessment of both internal and external risks associated with process and controls weaknesses;
- identifying the root cause of errors;
- promoting the development and implementation of corrective actions as needed;
- supporting modernization activities before and after implementation; and
- providing the information required to better direct and inform the organization of higher-risk areas to be investigated, controlled and mitigated.

Service Canada further improves the integrity of the CPP program by conducting administrative investigations and other integrity activities in high-risk situations. These activities help to detect, address and prevent benefit payment errors, as well as potential fraud and abuse. In 2008–09, Service Canada conducted over 3200 integrity interventions related to eligibility and entitlement, which led to $34 million in savings for the CPP program.

Reaching All Canadians

In 2008–09, the Partnerships and Engagement Division of Human Resources and Skills Development Canada (HRSDC) pursued its work with third parties (e.g., "first point of contact" organizations) to increase awareness and take-up of CPP and OAS benefits. Targeting based on research and trends helps the Division to reach people who may be missed through conventional communication channels. It also works with service providers who have direct access to these hard-to-reach Canadians. In 2008–09, the Division's targeted priority populations included immigrant, Aboriginal and low-income seniors (including homeless and near-homeless seniors), people with disabilities, near-retirees and young Canadians. Outreach initiatives continue to be developed and rolled out to increase knowledge and understanding of CPP and OAS benefits among these service providers, so they can disseminate accurate and timely information on CPP and OAS benefits to their clients.



Over the past several years, HRSDC and Service Canada have made a concerted effort to inform Canadians of what they can expect from their public pensions and how they should prepare for their retirement. In an effort to reach all Canadians, the Department and its partners will continue to improve and personalize the CPP program.

Government of Canada Gouvernement du Canada

Canada Pension Plan

Consolidated Financial Statements for the year ended March 31, 2009

Canada

Canada Pension Plan

Management's Responsibility for Financial Statements

The Consolidated Financial Statements of the Canada Pension Plan have been prepared in accordance with Canadian generally accepted accounting principles for the public sector, by the management of Human Resources and Skills Development Canada (the Department).

Management is responsible for the integrity and objectivity of the information in the financial statements, including the amounts which must, of necessity, be based on best estimates and judgement. The financial information presented throughout the Annual Report is consistent with the financial statements.

In support of its responsibilities, management has developed and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and that transactions are properly authorized and are in accordance with the *Canada Pension Plan* Act, the *Financial Administration Act* and their accompanying regulations. These controls include the establishment of an organizational structure that provides a well defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective audits. Management also reviews the recommendations of its internal and external auditors for improvements in internal controls.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and has reported to the Minister of Human Resources and Skills Development.

Michael J. Saucier, CMA
Acting Chief Financial Officer
Human Resources and
Skills Development Canada

Janice Charette
Deputy Minister
Human Resources and
Skills Development Canada

August 21, 2009

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Human Resources and Skills Development

I have audited the consolidated statement of net assets of the Canada Pension Plan as at March 31, 2009 and the consolidated statements of changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the management of Human Resources and Skills Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Canada Pension Plan as at March 31, 2009 and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
August 21, 2009

Canada Pension Plan

Consolidated Statement of Net Assets
as at March 31

	2009	2008
	(in millions of dollars)	
Assets		
Cash (Note 3)	**95**	109
Receivables (Note 4)	**4,796**	4,264
Investments (Schedule, Note 6)	**109,198**	126,208
Amounts receivable from pending trades (Schedule, Note 6)	**3,245**	4,471
Other assets	**38**	26
	117,372	135,078
Liabilities		
Payables and accrued liabilities (Note 8)	**468**	392
Investment liabilities (Schedule, Note 6)	**2,149**	1,478
Amounts payable from pending trades (Schedule, Note 6)	**4,733**	6,423
	7,350	8,293
Net Assets	**110,022**	126,785

Commitments (Note 12)
Contingencies (Note 13)

The accompanying notes and consolidated schedule are an integral part of these consolidated financial statements.

Approved by:

Michael J. Saucier, CMA
Acting Chief Financial Officer
Human Resources and
Skills Development Canada

Janice Charette
Deputy Minister
Human Resources and
Skills Development Canada

Canada Pension Plan

Consolidated Statement of Changes in Net Assets
for the year ended March 31

	2009	2008
	(in millions of dollars)	
Net Assets, beginning of year	**126,785**	119,831
Increase		
Contributions	**36,506**	35,346
Net investment loss (Note 9)		
Realized (losses) gains	**(17,841)**	3,783
Unrealized losses	**(9,326)**	(8,013)
Interest income	**1,568**	1,668
Dividend income	**2,179**	2,383
Other income	**326**	268
Transaction costs	**(93)**	(113)
Investment management fees	**(383)**	(233)
	(23,570)	(257)
	12,936	35,089
Decrease		
Pensions and benefits		
Retirement	**21,140**	19,838
Survivor	**3,786**	3,661
Disability	**3,326**	3,303
Disabled contributor's child	**278**	274
Death	**288**	271
Orphan	**215**	217
Net overpayments	**(28)**	(28)
	29,005	27,536
Operating expenses (Note 10)	**694**	599
	29,699	28,135
Net (decrease) increase in net assets	**(16,763)**	6,954
Net Assets, end of year	**110,022**	126,785

The accompanying notes and consolidated schedule are an integral part of these consolidated financial statements.

Canada Pension Plan

Consolidated Statement of Cash Flow
for the year ended March 31

	2009	2008
	(in millions of dollars)	
Operating Activities		
Cash receipts		
Contributions	**35,973**	34,551
Dividends on investments	**2,134**	2,377
Interest on investments	**1,818**	2,230
Other investment income	**300**	218
Cash payments		
Pensions and benefits	**(28,929)**	(27,440)
Operating expenses	**(678)**	(624)
Investment management fees	**(356)**	(216)
Transaction costs	**(85)**	(107)
Cash Flows from Operating Activities	**10,177**	10,989
Financing Activities		
Issuance of debt	**86**	5
Repayment of debt	**(68)**	(146)
Payment of interest on debt	**(60)**	(67)
Cash Flows used in Financing Activities	**(42)**	(208)
Investing Activities		
Purchases		
Equities	**(117,905)**	(136,650)
Inflation sensitive investments	**(6,546)**	(4,318)
Fixed income investments	**(11,524)**	(9,055)
Money market securities	**(425,983)**	(307,626)
Other debts	**(1,774)**	(1,166)
Absolute return strategies	**(820)**	(1,452)
Premises and equipment	**(20)**	(14)
Disposals		
Equities	**109,421**	130,359
Inflation sensitive investments	**5,770**	3,529
Fixed income investments	**11,978**	10,365
Money market securities	**426,858**	305,019
Other debts	**(225)**	6
Absolute return strategies	**621**	275
Cash Flows used in Investing Activities	**(10,149)**	(10,728)
Net (decrease) increase in Cash	**(14)**	53
Cash, beginning of year	**109**	56
Cash, end of year	**95**	109

The accompanying notes and consolidated schedule are an integral part of these consolidated financial statements.

Canada Pension Plan

Consolidated Schedule of Investments
as at March 31

	2009	2008
	(in millions of dollars)	
Equities (Note 6a)		
Canada		
Public equities	**8,058**	17,276
Private equities	**775**	644
	8,833	17,920
Foreign developed markets		
Public equities	**19,057**	30,395
Private equities	**13,100**	12,693
	32,157	43,088
Emerging markets		
Public equities	**3,866**	571
Private equities	**240**	127
	4,106	698
Total Equities	**45,096**	61,706
Fixed Income (Note 6b)		
Bonds	**26,915**	27,192
Other debts	**1,828**	1,144
Money market securities	**14,569**	18,798
Total Fixed Income	**43,312**	47,134
Absolute Return Strategies (Note 6c)	**1,830**	1,547
Inflation Sensitive Assets (Note 6d)		
Public real estate	**255**	488
Private real estate	**7,610**	7,421
Inflation-linked bonds	**775**	3,962
Infrastructure	**4,584**	2,776
Total Inflation Sensitive Assets	**13,224**	14,647
Investment Receivables		
Securities purchased under reverse repurchase agreements (Note 6e)	**4,000**	-
Accrued interest	**558**	661
Derivatives receivables (Note 6f)	**1,042**	344
Dividends receivables	**136**	169
Total Investment Receivables	**5,736**	1,174
Total Investments	**109,198**	126,208
Investment Liabilities		
Securities sold under repurchase agreements (Note 6e)	**(99)**	-
Debt on private real estate properties (Note 6d)	**(930)**	(980)
Derivatives liabilities (Note 6f)	**(1,120)**	(498)
Total Investment Liabilities	**(2,149)**	(1,478)
Amounts receivable from pending trades	**3,245**	4,471
Amounts payable from pending trades	**(4,733)**	(6,423)
Net Investments	**105,561**	122,778

Canada Pension Plan

Notes to Consolidated Financial Statements for the year ended March 31, 2009

1. Description of the Canada Pension Plan

a) Description of the Canada Pension Plan

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régime de rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Canada Pension Plan Investment Board (CPPIB) was established pursuant to the *Canada Pension Plan Investment Board Act.* The CPPIB is a federal Crown corporation and all of its shares are owned by Her Majesty the Queen in right of Canada.

The Minister of Human Resources and Skills Development is responsible for the administration of the Canada Pension Plan (under the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels and funding policy. The CPPIB is responsible for managing the amounts that are being transferred under Section 108.1 of the *Canada Pension Plan* Act. It acts in the best interests of the beneficiaries and contributors under the Act.

In accordance with the CPP Act, the financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 3). The financial transactions affecting the Account are governed by the CPP Act and its regulations. The Plan's investments are held by the CPPIB. The CPPIB's transactions are governed by the *Canada Pension Plan Investment Board Act* and its accompanying regulations. The CPPIB's assets are to be invested with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and its ability to meet its financial obligations on any given business day.

The CPPIB and its subsidiaries are exempt from Part I income tax under paragraphs 149(1)(d) and 149 (1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPPIB and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The CPPIB is designed to operate at arm's length from the government. It is required to be accountable to the public, Parliament (through the federal Minister of Finance), and the provinces. It provides regular reports of its activities and the results achieved.

As stated in the CPP and CPPIB Acts, changes to these Acts require the approval of at least two-thirds of the provinces that have, in the aggregate, not less than two-thirds of the population of all included provinces.

b) Financing

The CPP is financed by contributions and investment returns. Employers and employees pay contributions equally to the CPP. Self-employed workers pay the full amount.

The CPP was initially designed to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, the CPP is now intended to be funded on a "steady-state" basis – that is, combined employer-employee contributions of 9.9% of pensionable earnings. While the net asset value does not cover the actuarial present value of accrued pensions and benefits, it is expected to provide a capitalization level of 25% of the Plan's liability by the year 2025 as per the last triennial Actuarial Report issued in 2007.

The CPP Act stipulates that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The most recent triennial report, the Twenty-third Actuarial Report of the Chief Actuary as at December 31, 2006, was tabled in Parliament on October 29, 2007. The report concluded that the CPP is financially sound and the 9.9% combined employee-employer contribution rate reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

A number of assumptions such as long term rate of return on assets, inflation rate, mortality rates, increase in salary and benefit rates, among other things, were used in the Twenty-third Actuarial Report. These assumptions reflect best estimates of future economic and demographic events. The next triennial actuarial report as at December 31, 2009 is expected to be completed by December 2010.

c) Net Assets of the Plan

The net assets of the Plan are comprised of the deposit with the Receiver General for Canada and investments held by the CPPIB. They represent funds accumulated for the payment of pensions, benefits and operating expenses.

As at March 31, 2009, the value of the Plan's net assets is $110.0 billion (2008 – $126.8 billion). This amount represents approximately 3.8 times the total of pensions and benefits in 2009 (2008 - 4.6 times). According to the Twenty-third Actuarial Report, this is expected to grow to 5.5 times by 2019 and remain somewhat stable as the baby boom generation retires between 2015 and 2030.

d) Pensions and Benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum new monthly pension payable at age 65 in 2009 is $908.75 (2008 – $884.58).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum new monthly disability benefit in 2009 is $1,105.99 (2008 – $1,077.52).

Survivor's benefits – A survivor's benefit is payable to the spouse or common-law partner (the beneficiary) of a deceased contributor, according to the provisions of the Act. For a beneficiary under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A beneficiary between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For beneficiaries aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum new monthly benefit payable to a beneficiary in 2009 is $545.25 (2008 – $530.75).

Disabled contributor's child and orphan benefits – According to the provisions of the Act, each child of a contributor who is receiving disability benefits or a child of a deceased contributor is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2009 is $213.99 (2008 – $208.77).

Death benefits – According to the provisions of the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts to either 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2009 is $2,500 (2008 – $2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2009 is 2.5% (2008 – 2.0%).

2. Significant Accounting Policies

a) Basis of Presentation

These financial statements are presented on a consolidated basis. They include the consolidated net assets, the consolidated changes in net assets and the consolidated cash flow of the CPP and the CPPIB. These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector and conform to the disclosure and accounting requirements of the CPP Act.

These consolidated financial statements do not provide information on the actuarial estimates required to meet future obligations of the CPP since the CPP Act does not require that the pensions and benefits be pre-funded.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) Changes in Accounting Policies

Financial instruments
The CPP uses fair value for the preparation of its consolidated financial statements. The CPPIB uses the Canadian generally accepted accounting principles for the private sector. On April 1, 2008, the CPPIB adopted Canadian Institute of Chartered Accountants ("CICA") section 3862, *Financial Instruments – Disclosures* and section 3863, *Financial Instruments – Presentation*. These two new sections have replaced the disclosure and presentation requirements of section 3861, *Financial Instruments – Disclosure and Presentation*, and enhance disclosures regarding the nature and extent of risks arising from financial instruments and how the entity manages those risks (see Note 5).

Capital disclosures
On April 1, 2008, the CPPIB adopted CICA section 1535, *Capital Disclosures*. Section 1535 requires an entity to disclose its objectives, policies and processes for managing capital, which for the CPPIB, is its net investments. The adoption of section 1535 relates only to note disclosures and did not have an impact on the CPP Consolidated Financial Statements.

c) Valuation of Investments, Investment Receivables and Investment Liabilities

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if

available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, option pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

(i) Fair value for publicly-traded equities is based on quoted market prices. Where the market price is not available or reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) Fair value for fund investments is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.

(iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows using current market yields of instruments with similar characteristics and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on relevant information reported by the General Partner using similar accepted industry valuation methods.

(iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(vi) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

(vii) Fair value for public real estate investments is based on quoted market prices.

(viii) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(ix) Fair value for inflation-linked bonds is based on quoted market prices.

(x) Fair value for exchange-traded derivatives, which include futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include swaps, options, forward contracts and warrants, is determined based on the quoted market prices for underlying instruments where available. Otherwise, fair value is based on other accepted industry valuation methods using inputs such as equity prices and indices, broker quotations, market volatilities, currency exchange rates, current market interest rate yields, credit spreads and other market-based pricing factors. In determining fair value, consideration is also given to liquidity risk and the credit risk of the counterparty.

Direct investments in private equities, infrastructure and private real estate have fair values derived primarily from assumptions based on non-observable market data. The fair value of these direct investments is based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternatives assumptions, different fair values at March 31, 2009 could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

d) Contributions

Contributions include CPP contributions earned for the year. The Canada Revenue Agency (CRA) collects contributions and measures them using the assessment of tax returns. In determining the amount of contributions earned for the year, the CRA considers cash received and contributions assessed, and makes an estimate for contributions related to tax returns not yet assessed. This estimate is subject to review and adjustments. Adjustments, if any, are recorded as contributions in the year they are known.

e) Investment Income

Income from investments is recognized on an accrual basis and includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private real estate investments. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, realized gains and losses from investments or return of capital, as appropriate.

f) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

g) Translation of Foreign Currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net gain (loss) in net investment loss (See Note 9).

h) Pensions and Benefits

Pensions and benefits expenses are recorded when payable or reasonably estimated.

i) Tax Deductions due to Canada Revenue Agency

Tax deductions due to CRA consist primarily of voluntary and non-resident taxes withheld from pensions and benefit payments to CPP beneficiaries.

j) Net Overpayments

Net overpayments are comprised of overpayments of pensions and benefits that were established during the year less remissions of debts granted.

k) Operating Expenses

Operating expenses are recorded as incurred.

l) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated contributions, allowance for doubtful accounts, contingencies and fair

values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ significantly from those estimates.

m) Future Accounting Policy Change

International Financial Reporting Standards
In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"). The CPPIB will adopt IFRS for interim and annual periods commencing April 1, 2011, together with the disclosure of prior years' comparative figures.

The CPPIB has developed a conversion plan and is in the process of assessing the impact that IFRS could have on its operations, financial position and results of operations. As the CPP is not subject to the adoption of IFRS, it will assess the impact of the CPPIB's adoption of IFRS on its consolidated financial statements and will review the restatements made to CPPIB's information to ensure they are fairly presented in accordance with Canadian generally accepted accounting principles for the public sector.

3. Cash

Cash consists of the total cash held by the CPP Account and the CPPIB. The CPP Account was established in the accounts of Canada by the CPP Act to record the contributions, interest, pensions, benefits and operating expenses of the Plan. It also records the amounts transferred to or received from the CPPIB. As at March 31, 2009, the deposit with the Receiver General for Canada in the CPP Account is $90 million (2008 - $106 million) and CPPIB's cash is $5 million (2008 - $3 million) for a total of $95 million (2008 - $109 million) in the Consolidated Statement of Net Assets and the Consolidated Statement of Cash Flow.

4. Receivables

	2009	2008
	(in millions of dollars)	
Contributions	**4,662**	4,128
Régime de rentes du Québec	**98**	100
Beneficiaries		
Balance of pensions and benefits overpayments	**98**	94
Allowance for doubtful accounts	**(62)**	(58)
Total Receivables	**4,796**	**4,264**

The Department has procedures to detect overpayments. During the year, overpayments totalling $31 million (2008 – $32 million) were established and remissions of debts totalling $3 million (2008 – $3 million) were granted. A further $24 million was recovered (2008 – $24 million).

5. Investment Activities Risk Management

The CPPIB is exposed to a variety of financial risks as a result of its investment activities. These risks are market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The CPPIB manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies approved by the Board of Directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions.

Included within the Risk/Return Accountability Framework is an active risk limit which represents a limit on the amount of investment risk that the CPPIB can take relative to the CPP Reference Portfolio. The CPP Reference Portfolio is approved by the Board of Directors and serves as a performance benchmark against which the CPPIB's value-added activities are measured. It represents a low-cost strategic alternative to the CPP Investment Portfolio. The objective of the CPPIB is to create value-added investment returns greater than the returns that would be generated by the CPP Reference Portfolio. The CPPIB monitors the active risk in the CPP Investment Portfolio daily and reports active risk exposures to the Board of Directors at least on a quarterly basis.

(i) ***Market Risk:*** Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices and rates. As discussed above, the CPPIB manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund level, based on risk limits established in the investment policies. In addition, derivatives are used, where appropriate, to manage certain market risk exposures (See Note 6f). Market risk is comprised of the following:

Currency Risk: The CPPIB is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

(in millions of dollars)	**2009**		2008	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**25,698**	**57**	23,586	49
Euro	**7,988**	**18**	10,813	23
Japanese Yen	**3,907**	**9**	4,910	10
British Pound Sterling	**2,436**	**5**	3,593	8
Hong Kong Dollar	**1,363**	**3**	467	1
Australian Dollar	**875**	**2**	1,243	3
Other	**2,604**	**6**	2,961	6
Total	**44,871**	**100**	47,573	100

Interest Rate Risk: Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPPIB's interest bearing investments are exposed to interest rate risk.

Equity Price Risk: Equity price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPPIB is indirectly exposed to market risk on the underlying securities of fund investments.

Value at Risk
CPPIB uses Value at Risk ("VaR") methodology to monitor market risk exposure in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level. The VaR calculated by the CPPIB is estimated using a historical simulation method, incorporating the most recent 10 years of weekly market returns, evaluated at a 90 per cent confidence level and scaled to a one-year holding period.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that the CPP Investment Portfolio could experience. It is not an estimate of the worst case scenario.

Other assumptions under the historical simulation method for estimating VaR include:

- An estimate for VaR at a one-year holding period can be derived from a simulation based on weekly market returns by using a time-based scaling factor;
- Incorporating the most recent 10 years of market data is sufficient to reasonably estimate the potential loss in value at a 90 per cent confidence level; and
- The public market proxies used to represent private market investment returns (e.g. those for private real estate and private equities) are reasonable for estimating their contribution to the VaR.

The CPPIB monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio. Changes in active risk are largely independent of changes in VaR in the CPP Reference Portfolio and CPP Investment Portfolio.

As at March 31, 2009, VaR at a 90 per cent confidence level indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

(in millions of dollars)	VaR	% of CPP Investment Portfolio[1]
CPP Reference Portfolio	**10,370**	**9.7**
CPP Investment Portfolio Active Risk	**1,720**	**1.6**
CPP Investment Portfolio[2]	**11,351**	**10.6**

1 Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.

2 CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Risk due to the beneficial impact of risk diversification.

(ii) ***Credit Risk:*** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPPIB's most significant exposure to credit risk is its investment in debt securities and over-the-counter derivatives (as discussed in Note 6f). The carrying amounts of these investments as presented in the Consolidated Schedule of Investments represent the maximum credit risk exposure at the balance sheet date.

Oversight for credit risk resides with the CPPIB's Credit Committee, a sub-committee of their Investment Planning Committee ("IPC"), and chaired by their Chief Operations Officer. The IPC, chaired by the

President and Chief Executive Officer is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. The Credit Committee advises the IPC on the total portfolio exposure to credit risk and whether changes are warranted in the allocation of credit risk within the overall limits established by their Board of Directors. The Credit Committee ensures that the credit risks are identified, measured and monitored regularly and communicated at least monthly to the IPC and at least quarterly to the Board of Directors.

Credit risk measurement and reporting are performed by professional risk managers within CPPIB's Investment Risk Management group ("IRM"). IRM provides qualitative and quantitative analysis and oversight of credit risk, monitoring exposure limits, augmented by detailed analysis of single-name and sector exposures. Credit VaR is the common measure of credit risk across all investment strategies. IRM works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to CPPIB's management and at least monthly to their Credit Committee and their IPC.

The CPPIB manages credit risk by setting overall credit exposure limits by credit rating category. The Board of Directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Where the internal credit rating is lower than the rating determined by a recognized credit rating agency, the internal credit rating will prevail. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies. The Credit Committee has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to certain counterparties. IRM measures and monitors sub-limits and credit exposure limits daily for compliance and reports to the Credit Committee and IPC at least monthly, or more frequently as necessary.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking into account any collateral held or other credit enhancements, are as follows:

(in millions of dollars) **As at March 31, 2009**

Credit Rating	**Bonds[1,2]**	**Money Market Securities[1]**	**Reverse Repurchase Agreements[1,3]**	**Over-the-Counter Derivatives**	**Total**	**% of Total**
AAA/R-1 (high)	8,257	11,634	-	598	20,489	44
AA/R-1 (mid)	15,627	2,286	-	172	18,085	39
A/R-1 (low)	4,127	-	4,003	31	8,161	17
BBB/R-2 (low)	229	-	-	-	229	-
Total	28,240	13,920	4,003	801	46,964	100

1 Includes accrued interest.
2 Includes inflation-linked bonds.
3 As at March 31, 2009, fixed income securities with a fair value of $4,084 million and an AAA credit rating were received as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see Note 6f).

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. Master netting arrangements are entered into with all counterparties so that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in the form of cash or fixed income securities, be provided to the CPPIB when the positive fair value of the derivative contract exceeds certain threshold amounts. As at March 31, 2009, master netting arrangements and collateral held reduced the credit risk exposure to over-the-counter derivatives from $801 million to $432 million.

In addition to the above, the CPPIB is indirectly exposed to credit risk on the underlying securities of fund investments.

(iii) ***Liquidity Risk:*** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments as they come due. The CPPIB mitigates liquidity risk through its unsecured credit facilities (see Note 7) available in the amount of $1.5 billion (2008 - $1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPPIB is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see Note 11). In order to manage liquidity risk associated with this short-term cash management program, the assets required for this purpose are segregated from the investment portfolio and separately managed as the Cash for Benefits Portfolio. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective to ensure that the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

6. Investments and Investment Liabilities

As stated in Note 1, the role of the CPPIB is to invest the assets with a view to achieving a maximum rate of return without undue risk of loss, with regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day. To achieve their mandate, the CPPIB has established investment policies in accordance with its regulations. These set out the manner in which their assets shall be invested and their financial risks managed and mitigated through the Risk/Return Accountability Framework.

a) Equities

(i) Public equity investments are made directly or through funds. Investment management fees are paid to investment managers for externally managed investments and include an incentive portion that fluctuates with investment performance. As at March 31, 2009, public equities include fund investments with a fair value of $1,730 million (2008 - $1,202 million).

(ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2009, private equities include direct investments with a fair value of $ 2,906 million (2008 - $3,219 million).

With respect to limited partnership arrangements, the CPPIB advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the General Partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between one per cent and two per cent of the total amount committed to the limited partnerships and are expensed as incurred.

b) Fixed Income

(i) Bonds consist of marketable and Canadian government non-marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at their option, to roll over the bonds on maturity for a further

20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPPIB and the provinces permit each province to repay the bond and concurrently cause the CPPIB to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and are subject in all cases to the maximum 30 years outside the maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options or accrued interest, as at March 31 are as follows:

	2009						2008	
	Terms to Maturity							
(in millions of dollars)	**Within 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**	**Average Effective Yield**	Total	Average Effective Yield
Marketable bonds								
Government of Canada	**1**	**262**	**302**	**304**	**869**	**2.9%**	911	3.6%
Canadian provincial governments	**1**	**229**	**243**	**482**	**955**	**4.6**	1,626	4.4
Canadian government corporations	**111**	**1,367**	**214**	**279**	**1,971**	**3.3**	1,405	4.1
Corporate bonds	**6**	**246**	**134**	**69**	**455**	**7.8**	-	-
Total marketable bonds	**119**	**2,104**	**893**	**1,134**	**4,250**		3,942	
Non-marketable bonds								
Government of Canada	**73**	**511**	**-**	**-**	**584**	**0.9**	1,140	2.7
Canadian provincial governments	**2,228**	**6,474**	**638**	**12,741**	**22,081**	**4.6**	22,110	4.6
Total non-marketable bonds	**2,301**	**6,985**	**638**	**12,741**	**22,665**		23,250	
Total	**2,420**	**9,089**	**1,531**	**13,875**	**26,915**	**4.5%**	27,192	4.5%

(ii) Other debt instrument consists of investments in distressed mortgage and private debt funds.

c) Absolute Return Strategies

Absolute return strategies consist of investments in funds whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds could include, but are not limited to, equities, fixed income securities and derivatives.

d) Inflation-sensitive Assets

(i) The CPPIB obtains exposure to real estate through investments in publicly-traded securities, funds and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPPIB by investment managers through co-ownership arrangements. As at March 31, 2009, the subsidiaries' share of these investments includes assets of $7,610 million (2008 – $7,421 million) and

$930 million of secured debt (2008 – $980 million), with a weighted average fixed interest rate of 6.6 per cent and terms to maturity of one to 19 years.

Included in the private real estate are investments in joint ventures. The CPPIB's proportionate interest in joint ventures is summarized as follows:

Proportionate Share of Net Assets (in millions of dollars)	**As at March 31** **2009**	2008
Assets	**4,860**	5,173
Liabilities	**(930)**	(980)
	3,930	4,193

Proportionate Share of Net Income (in millions of dollars)	**For the Year Ended March 31** **2009**	2008
Revenue	**567**	531
Expenses	**(363)**	(328)
	204	203

(ii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

	2009						2008	
	Terms to Maturity							
(in millions of dollars)	**Within 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**	**Average Effective Yield**	Total	Average Effective Yield
Inflation-linked bonds	**-**	**107**	**140**	**528**	**775**	**2.8%**	3,962	3.9%

(iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2009, infrastructure includes direct investments with a fair value of $3,154 million (2008 – $1,913 million). Direct investments do not have management fees, while management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in Note 6a).

e) Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

Securities sold under repurchase agreements are accounted for as collateralized borrowing as they represent the sale of securities effected with a simultaneous agreement to buy them back at a specified price and at a specified future date. The securities sold continue to be recognized as an investment of the CPPIB with any changes in fair value recorded as net gain (loss) on investments (see Note 9). Securities purchased under reverse repurchase agreements are not recognized as an investment of the CPPIB and are accounted for as collateralized lending as they represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price and at a specified future date. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPPIB has the right to liquidate the collateral held. Repurchase and reverse repurchase agreements are carried on the Consolidated Schedule of Investments at the amounts at which the securities were initially acquired or sold. Interest incurred on repurchase agreements and interest earned on reverse repurchase agreements are included in investment income (see Note 9).

As at March 31, 2009, the securities sold under repurchase agreements of $99 million (2008 - $nil) have terms to maturity of less than one year and a weighted average fixed interest rate of 0.8 per cent. As at March 31, 2009, the securities purchased under reverse repurchase agreements of $4,000 million (2008 - $nil) have terms to maturity of one to three years and an average effective yield of 2.1 per cent.

As at March 31, 2009, fixed income securities with a fair value of $4,084 million (2008 - $nil) were held as collateral on reverse repurchase agreements of which $3,923 million (2008 - $nil) may be sold or repledged. The fair value of securities collateral sold or repledged as at March 31, 2009 is $nil (2008 - $nil). As at March 31, 2009, fixed income securities with a fair value of $100 million (2008 - $nil) were pledged as collateral on repurchase agreements. These transactions are conducted under terms and conditions that are common and customary to collateral arrangements.

f) Derivative Contracts

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates or currency exchange rates. The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Schedule of Investments. Derivative exposure generally includes the fair value adjustment plus the notional amount of the contract.

The CPPIB uses the following types of derivative instruments as described below:

Swaps
Swaps include equity, variance, inflation-linked bond, cross-currency interest rate, bond, interest rate and credit default swaps which are over-the-counter contractual agreements generally between two counterparties to exchange a series of cash flows with predetermined conditions based on notional amounts. Swaps are used for yield-enhancement purposes or to adjust exposures to certain equities, bonds, currencies, inflation-linked bonds or interest rates without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contract. There is also risk arising from exposure to movements in equity values, credit ratings, interest rates and foreign exchange rates, as applicable.

Futures
Futures include equity and bond futures which are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities or bonds at a predetermined price and date in the future. Futures are used to adjust exposures to certain equities and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties.

Options
Equity options written, which are transacted over-the-counter, are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy a specified quantity of a particular stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. Equity options are used for yield-enhancement purposes or to adjust exposures to certain equities without directly purchasing or selling the underlying asset. The primary risks associated with equity options are exposure to movements in equity values and foreign exchange rates as applicable. Credit risk exposure on over-the-counter options arises due to the possible inability of counterparties to meet the terms of the contract.

Forwards
Forward contracts include foreign exchange and interest rate forwards which are over-the-counter contractual agreements negotiated between two counterparties to either purchase or sell a specified amount of foreign currencies or interest rate sensitive financial instruments at a predetermined price and date in the future. Forward contracts are used for yield-enhancement purposes or to manage exposures to currencies and

interest rates. The primary risks associated with forward contracts arise from exposure to movements in foreign exchange and interest rates, as applicable, and from the possible inability of counterparties to meet the terms of the contract.

Warrants

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price. Warrants are used for yield-enhancement purposes. The primary risks associated with warrants are exposure to movements in equity values and foreign exchange rates as applicable.

Notional Amounts and Fair Value of Derivative Contracts

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts and are generally a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk associated with a derivative contract.

The fair value of derivative contracts held is as follows:

	As at March 31, 2009			For the Year Ended March 31, 2009	
(in millions of dollars)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
Equity contracts					
Equity swaps	470	(273)	197	363	(425)
Variance swaps	6	(138)	(132)	4	(84)
Equity futures	51	(1)	50	36	(34)
Warrants	190	-	190	172	-
Written options	-	(128)	(128)	-	(99)
Total equity contracts	717	(540)	177	575	(642)
Foreign exchange contracts					
Forwards	122	(165)	(43)	153	(212)
Total foreign exchange contracts	122	(165)	(43)	153	(212)
Interest rate contracts					
Bond swaps	6	-	6	7	(8)
Cross-currency interest rate swaps	-	(412)	(412)	-	(238)
Inflation-linked bond swaps	193	-	193	31	(45)
Interest rate forwards	-	-	-	-	-
Bond futures	1	-	1	-	-
Interest rate swaps	3	(2)	1	3	-
Total interest rate contracts	203	(414)	(211)	41	(291)
Credit contracts					
Credit default swaps	-	(1)	(1)	-	(1)
Total credit contracts	-	(1)	(1)	-	(1)
Total	1,042	(1,120)	(78)	769	(1,146)

	As at March 31, 2008			For the Year Ended March 31, 2008	
(in millions of dollars)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
Equity contracts					
Equity swaps	227	(198)	29	288	(237)
Variance swaps	-	(1)	(1)	-	-
Equity futures	16	(5)	11	12	(12)
Warrants	-	-	-	-	-
Written options	-	-	-	-	-
Total equity contracts	243	(204)	39	300	(249)
Foreign exchange contracts					
Forwards	79	(224)	(145)	186	(150)
Total foreign exchange contracts	79	(224)	(145)	186	(150)
Interest rate contracts					
Bond swaps	13	(8)	5	9	(3)
Cross-currency interest rate swaps	-	(62)	(62)	-	(5)
Inflation-linked bond swaps	9	-	9	1	-
Interest rate forwards	-	-	-	-	-
Bond futures	-	-	-	-	-
Interest rate swaps	-	-	-	-	-
Total interest rate contracts	22	(70)	(48)	10	(8)
Credit contracts					
Credit default swaps	-	-	-	-	-
Total credit contracts	-	-	-	-	-
Total	344	(498)	(154)	496	(407)

[1] Determined using month-end values.

The terms to maturity and the notional amounts for derivative contracts held as at March 31 are as follows:

	2009				2008			
(in millions of dollars)	**Within 1 year**	**1 to 5 years**	**6 to10 years**	**Total**	Within 1 year	1 to 5 years	6 to 10 years	Total
Equity contracts								
Equity swaps	**14,363**	**1,296**	**-**	**15,659**	10,796	1,500	-	12,296
Variance swaps	**3**	**110**	**4,877**	**4,990**	-	-	597	597
Equity futures	**3,781**	**-**	**-**	**3,781**	2,969	-	-	2,969
Warrants	**59**	**377**	**8**	**444**	-	-	-	-
Written options	**-**	**265**	**-**	**265**	-	-	-	-
Total equity contracts	**18,206**	**2,048**	**4,885**	**25,139**	13,765	1,500	597	15,862
Foreign exchange contracts								
Forwards	**16,597**	**-**	**-**	**16,597**	14,899	-	-	14,899
Total foreign exchange contracts	**16,597**	**-**	**-**	**16,597**	14,899	-	-	14,899
Interest rate contracts								
Bond swaps	**1,469**	**-**	**-**	**1,469**	2,401	-	-	2,401
Cross-currency interest rate swaps	**1,477**	**-**	**-**	**1,477**	-	1,477	-	1,477
Inflation-linked bond swaps	**3,099**	**-**	**-**	**3,099**	762	-	-	762
Interest rate forwards	**-**	**-**	**-**	**-**	276	-	-	276
Bond futures	**379**	**-**	**-**	**379**	-	-	-	-
Interest rate swaps	**-**	**546**	**46**	**592**	-	-	-	-
Total interest rate contracts	**6,424**	**546**	**46**	**7,016**	3,439	1,477	-	4,916
Credit contracts								
Credit default swaps	**-**	**74**	**25**	**99**	-	-	-	-
Total credit contracts	**-**	**74**	**25**	**99**	-	-	-	-
Total	**41,227**	**2,668**	**4,956**	**48,851**	32,103	2,977	597	35,677

g) Securities lending

In September 2008, the CPPIB suspended its securities lending program. In normal market conditions, securities lending is a low risk way to add incremental value to the portfolio. Credit risk associated with securities lending was mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. However, heightened credit and counterparty risk have significantly altered the risk-return equation. As at March 31, 2009, the CPPIB's investments include securities loaned with a fair value of $nil (2008 - $2,480 million). The fair value of collateral received in respect of the securities loaned is $nil (2008 - $2,606 million).

7. Credit Facilities

The CPPIB maintains $1.5 billion (2008 - $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2009, the total amount drawn on the credit facilities is $nil (2008 – $nil).

8. Payables and Accrued Liabilities

	2009	2008
	(in millions of dollars)	
Operating expenses	**124**	121
Pensions and benefits payable	**229**	161
Tax deductions due to Canada Revenue Agency	**115**	110
Total payables and accrued liabilities	**468**	392

9. Net Investment Loss

Net investment loss is reported net of transaction costs and investment management fees.

Net investment income (loss) by asset class and after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31 is as follows:

(in millions of dollars)			2009			
	Investment Income[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada						
Public equities	339	(9,012)	(8,673)	(1)	(19)	(8,693)
Private equities	11	(69)	(58)	(11)	(2)	(71)
	350	(9,081)	(8,731)	(12)	(21)	(8,764)
Foreign developed markets						
Public equities	1,617	(12,154)	(10,537)	(28)	(27)	(10,592)
Private equities	57	(2,665)	(2,608)	(222)	(7)	(2,837)
	1,674	(14,819)	(13,145)	(250)	(34)	(13,429)
Emerging markets						
Public equities	3	(101)	(98)	(1)	(6)	(105)
Private equities	-	(15)	(15)	(25)	-	(40)
	3	(116)	(113)	(26)	(6)	(145)
	2,027	(24,016)	(21,989)	(288)	(61)	(22,338)
Fixed Income						
Bonds	1,308	638	1,946	-	-	1,946
Other debt	2	(1,295)	(1,293)	(13)	-	(1,306)
Money market securities	100	(422)	(322)	-	-	(322)
	1,410	(1,079)	331	(13)	-	318
Absolute Return Strategies	-	108	108	(20)	-	88
Inflation-Sensitive Assets						
Public real estate	18	(269)	(251)	(8)	(1)	(260)
Private real estate	320	(1,485)	(1,165)	(49)	(11)	(1,225)
Inflation-linked bonds	55	(131)	(76)	-	-	(76)
Infrastructure	237	(295)	(58)	(5)	(20)	(83)
	630	(2,180)	(1,550)	(62)	(32)	(1,644)
Interest on Operating Balance	6	-	6	-	-	6
Total	4,073	(27,167)	(23,094)	(383)	(93)	(23,570)

(in millions of dollars)	2008					
	Investment Income[1]	Net Gain (Loss) on Investments[2,3]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
Equities						
Canada						
Public equities	309	986	1,295	(8)	(23)	1,264
Private equities	13	21	34	(12)	(7)	15
	322	1,007	1,329	(20)	(30)	1,279
Foreign developed markets						
Public equities	1,881	(7,694)	(5,813)	(8)	(26)	(5,847)
Private equities	105	980	1,085	(128)	(12)	945
	1,986	(6,714)	(4,728)	(136)	(38)	(4,902)
Emerging markets						
Public equities	-	(50)	(50)	-	-	(50)
Private equities	-	8	8	(17)	-	(9)
	-	(42)	(42)	(17)	-	(59)
	2,308	(5,749)	(3,441)	(173)	(68)	(3,682)
Fixed Income						
Bonds	1,426	560	1,986	-	-	1,986
Other debt	-	(48)	(48)	(2)	(1)	(51)
Money market securities	67	9	76	-	-	76
	1,493	521	2,014	(2)	(1)	2,011
Absolute Return Strategies	-	106	106	(23)	-	83
Inflation-Sensitive Assets						
Public real estate	28	(222)	(194)	(5)	(1)	(200)
Private real estate	259	276	535	(27)	(19)	489
Inflation-linked bonds	89	287	376	-	-	376
Infrastructure	134	551	685	(3)	(24)	658
	510	892	1,402	(35)	(44)	1,323
Interest on Operating Balance	8	-	8	-	-	8
Total	4,319	(4,230)	89	(233)	(113)	(257)

1 Includes interest income, dividends, securities lending income and private real estate operating income, net of interest expense.

2 Includes realized gains and losses from investments and unrealized gains and losses on investments held at the end of the period.

3 Includes foreign exchange gains of $6,789 million (2008 – foreign exchange losses of $1,365 million).

4 Includes net unrealized losses of $1,209 million which represent the change in fair value estimated on direct investments in private equities, infrastructure, and private real estate where the fair value is derived primarily from assumptions based on non-observable market data.

10. Operating Expenses

	2009	2008
	(in millions of dollars)	
General operating expenses	**309**	275
Salaries and benefits	**364**	306
Professional and consulting fees	**21**	18
Total Operating Expenses	**694**	599

11. Net Assets and Changes in Net Assets for Accountability Purposes

The administration of the CPP's assets and activities is shared between various government of Canada's departments and the CPPIB. The CPPIB is responsible for investing the majority of the CPP's assets, while the Government of Canada (GoC), through various federal departments, manages the remainder of the assets, as well as the collection of the CPP contributions and the administration and payments of the CPP benefits. For accountability purposes, the following table presents summary information on the levels of assets and liabilities and sources of income and expenses managed by the GoC and the CPPIB respectively.

(in millions of dollars)		**2009**			2008	
	GoC	**CPPIB**	**Total**	GoC	CPPIB	Total
Assets	**4,886**	**112,486**	**117,372**	4,371	130,923	135,294
Liabilities	**365**	**6,985**	**7,350**	289	8,220	8,509
Net assets	**4,521**	**105,501**	**110,022**	4,082	122,703	126,785
Income (loss):						
Contributions	**36,506**	**-**	**36,506**	35,346	-	35,346
Investment income (loss)	**6**	**(23,576)**	**(23,570)**	11	(268)	(257)
	36,512	**(23,576)**	**12,936**	35,357	(268)	35,089
Expenses:						
Pensions and benefits	**29,005**	**-**	**29,005**	27,536	-	27,536
Operating expenses	**505**	**189**	**694**	445	154	599
	29,510	**189**	**29,699**	27,981	154	28,135
Increase (decrease) in net assets	**7,002**	**(23,765)**	**(16,763)**	7,376	(422)	6,954

Pursuant to Section 108.1 of the CPP Act and the Agreement dated as of April 1, 2004, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPPIB. The funds originate from employer and employee contributions to the CPP and interest income generated from the deposit with the Receiver General.

In September 2004, the CPPIB assumed responsibility for providing cash management services to the CPP, including periodic return, on at least a monthly basis, of funds required to meet CPP pension, benefits and operating expenses obligations.

During the year ended March 31, 2009, a total of $29.1 billion was transferred to the CPPIB and a total of $22.6 billion was returned to the CPP to meet its liquidity requirements.

Activities during the year

	2009	2008
	(in millions of dollars)	
Canada Pension Plan Investment Board		
Accumulated transfers to CPPIB, beginning of year	**153,073**	125,289
Transfers of bonds titles and accrued interest	**-**	630
Transfers of funds to CPPIB	**29,131**	27,154
Accumulated transfers to CPPIB, end of year	**182,204**	153,073
Accumulated transfers from CPPIB, beginning of year	**(62,714)**	(42,120)
Transfers of funds from CPPIB	**(22,568)**	(20,594)
Accumulated transfers from CPPIB, end of year	**(85,282)**	(62,714)
Net accumulated transfers to CPPIB	**96,922**	90,359

12. Commitments

The CPPIB has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2009, the commitments total $23.9 billion (2008 – $18.6 billion).

As at March 31, 2009, the CPPIB has made lease and other commitments of $54.7 million (2008 – $59.4 million) over the next nine years.

13. Contingencies

a) Appeals relating to the payment of pensions and benefits

At March 31, 2009, there were 6,810 (6,962 in 2008) appeals relating to the payment of CPP disability benefits. These contingencies are reasonably estimated, using historical information, at an amount of $71 million ($79 million in 2008), which was recorded as an accrued liability in the CPP 2008-09 financial statements. Any eligible benefit will be accounted for in the period in which the amount becomes determinable.

b) Other claims and legal proceedings

In the normal course of operations, the CPP is involved in various claims and legal proceedings. While the total amount claimed in these actions may be material, their outcomes are not determinable. The CPP records an allowance for claims and legal proceedings when it is likely that there will be a future payment and

a reasonable estimate of the loss can be made. No such allowance was recognized in the financial statements for the 2008-09 and 2007-08 fiscal years for these claims and legal proceedings.

c) Guarantees and indemnifications

The CPPIB provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties. The CPPIB may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPPIB from making a reasonable estimate of the maximum potential payments the CPPIB could be required to make. To date, the CPPIB has not received any claims nor made any payments pursuant to such indemnifications.

14. Related Party Transactions

In addition to the information already disclosed in the other Notes to the Consolidated Financial Statements, the CPP has $4,662 million (2008 - $4,128 million) of contributions receivable from the Canada Revenue Agency.

The CPP enters into transactions with the Government of Canada in the normal course of business, which are recorded at the exchange value. The costs are based on estimated allocations of costs and are charged to the CPP in accordance with various memoranda of understanding.

Transactions for the year	**2009**	2008
	(in millions of dollars)	
Pension and benefit delivery, accommodation and corporate services Human Resources and Skills Development Canada	**345**	291
Collection of contributions and investigation services Canada Revenue Agency and Royal Canadian Mounted Police	**146**	140
Cheque issue and computer services Public Works and Government Services Canada	**12**	12
Actuarial services Office of the Superintendent of Financial Institutions and Department of Finance	**2**	2
Total	**505**	445

15. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.